

Weekly Economic Commentary – Sep 6, 2015

Markets

Hit by negative macro news, foremost Chinese PMI and US payroll, global stock markets experienced another bad week, with the 7% Japan's Topix tumble leading the way. Losses in the US and European indices exceeded 3% while emerging markets' MSCI fell almost 4%. In the midst of such gloom, regional markets were buoyant, apart from the Saudi market, which fell 4%. Currency markets saw a slide of the euro after the dovish remarks by ECB President Draghi, but among the major currency the yen benefitted from the uncertainty over the Fed's move in September. For oil prices the week was a roller coaster with an initial shoot up and wild gyrations afterwards due to macro data and US inventory build up. After the dust settled the Brent price was only 0.9% lower compared to a week earlier but with a five-day trading range of more than \$6.50. Despite the dollar's reversal, gold closed USD 11 lower over the week.

Global Developments

US/Americas:

- **US Non-farm payrolls** rose 173,000 in Aug, about 100,000 below expectations. A net 44,000 upward revision to the previous two months' figures left the 3-month average monthly increase at 221,000. The jobless rate declined from 5.3% in July to 5.1% (a 7.5 years low). Average hourly compensation rose 0.3% mom and a modest 2.2% yoy.
- **The ISM manufacturing index** in Aug, fell from 52.7 to 51.1, the second consecutive monthly decline, bringing the cumulative drop to 2.4 points confirming lackluster conditions in the sector. The Aug figures are the lowest

since May 2013. By contrast the **non-manufacturing** segment is maintaining momentum although the ISM index fell from 60.3 in Jul to 59 in Aug.

- **The US trade deficit** dropped in Jul by -7.4% to a 5-month low of US\$41.9bn, vs US\$45.2bn in Jun. Exports rose 0.4%, pushed by vehicle sales. In 2015 the trade deficit has been about 3.6% higher than in 2014 hit by lower export resulting from by the stronger dollar.
- **Construction spending** increased 0.7% mom from Jun. Private construction was the main driver, rising 1.3%, Public construction fell 1% as highway construction decreased 0.2% and spending on education structures decreased by 3%.
- **Initial claims for unemployment benefits** increased 12,000 to 282,000. The four-week moving average rose from 272,250 to 275,500.

Europe:

- The **ECB held interest rates unchanged**, but President Draghi in the press conference gave an overall negative assessment of the situation in the euro zone. The ECB staff projections for GDP growth and inflation were trimmed down for 2015 and 2016. As a result Draghi stated that the ECB was contemplating an increase in the “size, composition and duration” of its (so far rather ineffective) QE programme to support growth. He added that debt relief for Greece was “uncontroversial”.
- **Euro zone inflation** flatlined yoy in Aug, with **consumer prices** increasing 0.2% yoy, the same as in Jul and **the euro zone producer prices** dropped -2.1% yoy in Jul, unchanged from Jun.
- The **euro zone's unemployment rate** in Jul was 10.9%, (the lowest in over 3 years) down from 11.1% in Jun and from 11.6% in Jul 2014. Among the individual countries, **Germany's** seasonally adjusted unemployment rate remained at 6.4% in Aug, **France** unemployment rate remained at

10%, in Q2, and **Italy's** unemployment rate fell to 12% in Jul from a revised 12.5% in Jun.

- **Euro zone retail sales** crawled up 0.4% mom in Jul, up from the -0.2% drop in May. Among individual countries, **German retail sales** increased 1.4% mom in Jul (3.3% yoy) following a revised 1% drop in Jun and Italy's retail sales dropped -0.3% mom in Jun, following a -0.2% decline in May.
- **German manufacturing orders** dropped -1.4% mom (0.7% yoy) in Jul, following a revised 1.8% mom (6.8% yoy) increase in Jun.
- **UK total net lending to individuals** climbed by GBP 3.9 bn in Jul, the same as in Jun.

Asia and Pacific:

- The official **Chinese PMI** fell to 49.7 in Aug the lowest in 3 years, from Jul's 50.0. However the services PMI, although dropping to 53.4 in Aug from Jul's 53.9, signalled healthy growth.
- **China's Finance Minister** Lou Jiwei said at the G20 meeting that Chinese financial markets will stabilize and the yuan is not heading for a long-term devaluation. Fiscal spending will be boosted this year to stimulate growth. Lou added that the economy will go through "labor pains" until 2020 when the main structural reforms will be completed.
- **India's Q2 GDP** marginally cooled to 7% qoq in Q2, from 7.5% in Q1. Manufacturing once again has been leading the growth, together with hotels and transport, while exports and other domestic indicators remain weak.
- **Australia's GDP** in Q2 expanded a paltry 0.2% qoq 0.9% in Q1. The economy continues to underperform; falling exports and mining investments are the main drag.
- **Australia's current account deficit** dipped even further beyond expectations to AUD -19.1 bn in Q2, from a revised AUD -13.5 bn in Q1.

- **South Korea's GDP** recorded a growth of 0.3% qoq in Q2, down from 0.8% in Q1. The slowdown was driven by cuts in households spending.
- **South Korea's industrial production** plunged -3.3% yoy in Jul, after a 1.4% increase in Jun.
- **Japan's housing starts** rose 7.4% yoy in Jul, following a solid 16.3% gain in Jun. Residential constructions are rebounding strongly in 2015 due to land tax reform, rising housing prices and monetary stimulus.
- **Japan's industrial production** dropped -0.6% mom in Jul after Jun's 1.1% gain.
- **Thailand's industrial production** continued to plunge, declining by 5.3% in Jul following Jun's 7.7% decline.

Bottom line: The best news of the week was the two day closure of the Chinese stock markets for the 70th anniversary of the victory in WWII after another negative PMI survey. The main world macro data disappointed expectations, supporting the view of anemic global growth, which the authorities are unable to counter with any substantial measures, apart from additional injections of liquidity in financial markets. A proof came from the G20 gathering, where the Finance Ministers tried again to mesmerize markets with chatter of unspecified structural reforms to relaunch growth and professed confidence in the economic outlook.

Regional Developments

- **Egypt PMI** registered an 8-month high of 51.2 in Aug (Jul: 49.2), with output touching an 11-month high and supported by an increase new orders. However, hiring dropped for the eighth time in nine months.
- **Money supply** (M2) in **Egypt** was up 16.5% yoy to EGP 1.8 trillion in end-Jul.
- The volume of **net direct foreign investments** in **Egypt** was USD 5.7bn in the first nine months of fiscal year 2014-15, according to the CEO of the General Authority for Investment and Free Zones. This compares to an

estimated USD 4.1bn during the full fiscal year 2013-14.

- **Bilateral trade** between **Egypt** and **Indonesia** is around USD 1.2bn annually, according to the head of the Egyptian-Indonesian Business Council.
- **Egypt** is set to hold its **parliamentary elections** during Oct 18-19, with the second round of voting in the two-phase election scheduled to take place on Nov 22-23; the country has been without a parliament since Jun 2012.
- **Jordan** will launch its first **sukuk issuance** worth JOD 150mn this month, disclosed the Finance Ministry Secretary General, with another expected before year-end to finance projects of the Jordan Water Authority.
- **Kuwait's trade surplus** fell to a 6-year low of KWD 1.7bn in Q1 this year, as per a National Bank of Kuwait report. Not surprisingly, lower oil prices dented export receipts, with oil export revenues at their lowest level in five years – declining by 49% yoy to KWD 3.6bn.
- **Kuwait** is studying plans to introduce **taxes on luxury items** and **road tolls** on some national highways, in a bid to diversify revenue amidst expanding budget deficits, reported *Al Rai* daily.
- **Lebanon PMI** was at an 11-month low, with the index contracting further in Aug to 47.8. This was the sharpest monthly contraction since Sep 2014; output and new orders' levels decreased at a faster pace compared to the month before.
- **Lebanon's** finance minister has requested the parliament to approve plans to convert the Beirut **stock exchange** into a joint-stock company, in the first step towards privatisation.
- **Outward greenfield FDI** from **Lebanon** totaled USD 7.2bn between Jan 2003 and May 2015, or 1.3% of total greenfield FDI projects from Arab countries, according to data from fDi Markets.
- **Oman's** Central Bank disclosed that **non-performing loans** amounted to 2% of total loans at end-2014. The banking sector risk-weighted capital adequacy ratio was 16.2%,

well above the statutory 12%.

- **Fitch** affirmed **Qatar**'s Long-term foreign and local currency Issuer Default Ratings at 'AA' with a stable outlook.
- **Saudi Arabia**'s **Q2** preliminary **GDP** grew 3.8% yoy (Q1: 2.3%), with the oil sector growing 5.1% and non-oil sector up 3.1%.
- **PMI** in **Saudi Arabia** grew to a 5-month high of 58.7 in Aug (Jul: 57.7), thanks to accelerating output and new orders to 65.8 (Jul: 65.1) and 64.8 (63.1) respectively.
- **Saudi Arabia** is considering a plan to impose a **tax on undeveloped urban land** across the board (including small plots), in a bid to prevent landowners from evading the levy, according to *Okaz* newspaper.
- Banks in **Saudi Arabia** are likely to see an **increase in non-performing loans** by end of this year, according to S&P, as it takes a few quarters for asset quality issues to surface in a less resilient economy.

UAE Focus

- **UAE**'s non-oil business activity surged to a 6-month high, with the **PMI** registering 57.1 points in Aug (Jul: 55.8). Output growth was up 3.1 points to 63.1 from the prior month, while new orders rose to 61.3 from 60.2.
- **Non-oil trade** in the **UAE** grew 6% yoy to AED 270bn in Q1, according to Federal Customs Authority data. Among trading partners, Asia, Australia and the Pacific region retained the top spot accounting for about 42% share of total non-oil trade while among GCC nations, Saudi topped the list (40% of the total GCC trade value).
- The value of **DFM stocks** bought by foreign investors reached AED 6.2bn in Aug (49% of total traded value); meanwhile, net foreign investment outflow touched AED 321.3mn.
- **Bilateral trade** between **Iran** and **Dubai** stood at USD 18bn in 2014, according to Iran's Ambassador to the UAE.

- **Dubai International** airport received 6.68mn **passengers** in July, a 29.6% yoy increase – this high yoy increase reflects a low base last year due to runway maintenance in summer. Year-to-date, passengers were up 12.9% to 45mn.
- **Cargo volumes** at Dubai World Central's (DWC) **Al Maktoum International Airport** rose 42% yoy to 443,012 tonnes in H1 this year, as a result of Dubai Airports' 2014 decision to relocate all dedicated freighters from Dubai International to DWC.
- **UAE's industrial sector** is the second-largest contributor to GDP, representing about 14% of the national output, stated the country's Minister of Economy. He also revealed that the sector attracted AED 127bn in investments, while the sector is estimated to employ around 433k persons.
- The **Dubai Mercantile Exchange** disclosed a **record open interest** for its flagship Oman Crude Oil Futures contract of 27,109 lots, which is equivalent to 27.1mn barrels of crude oil, against the previous record of 24,750 lots set in Nov 2013.

Media Review

Inflation, The Fed & The Big Picture

<http://www.project-syndicate.org/commentary/jackson-hole-banking-conference-inflation-by-carmen-reinhart-2015-09>

The Fed Hangs in the Balance

<http://www.ft.com/intl/cms/s/0/383eaf3c-52ff-11e5-8642-453585f2cfcd.html#axzz3khtA43by>

A Financial Early-warning System

<http://www.project-syndicate.org/commentary/financial-early-warning-system-by-nouriel-roubini-2015-08>

Mystery of China's Missing Stock Market Data

<http://qz.com/495385/china-has-made-key-stock-market-data-from-two-weeks-before-the-crash-mysteriously-unavailable/>

Analogies between USA 2008 and China 2015

http://www.ritholtz.com/blog/2015/08/china-2015-u-s-2008/?utm_

source=dlvr.it&utm_medium=twitter

The G20 umpteen call for structural reforms

[http://www.reuters.com/article/2015/09/05/us-g20-turkey-idUSKC
N0R50QL20150905](http://www.reuters.com/article/2015/09/05/us-g20-turkey-idUSKC
N0R50QL20150905)

Harold James on Globalized Crises

[https://www.project-syndicate.org/commentary/globalized-econom
ic-crisis-by-harold-james-2015-09](https://www.project-syndicate.org/commentary/globalized-econom
ic-crisis-by-harold-james-2015-09)